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SUBJECT: SERBIA: COLLECTIVE BARGAINING AGREEMENT WOES

Reftel: 08 Belgrade 886

Summary  
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1. (U) After intense negotiations and threat of worker protest, on February 11, the government, labor unions, and employers' union decided to postpone doling out \$1.7 to \$2.6 billion in allowances to workers during the economic crisis. In November, the three parties signed annexes to Serbia's new collective bargaining agreement (CBA) that obligated all employers (including the government) to give every worker meal and vacation allowances. Less than a month later, Serbia's largest employers' union and the government withdrew their signatures. Publicly they cited financial hardship for their withdrawal, but in conversations with the Embassy they insisted that all parties, including the labor unions, agreed to sign the annexes to fulfill President Tadic's parliamentary elections political promise with the understanding the annexes would never be implemented. When the labor unions reneged on this alleged agreement, debate ensued. All parties finally agreed not to withdraw from the CBA, but to postpone allowances payments for the first half of 2009 and to revisit the issue later in the year. However, it is unlikely the CBA annexes will be resurrected and implemented in 2009 or even in 2010 given Serbia's negative economic prognosis. End Summary.

The Players  
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2. (SBU) The Social Economic Council which consists of members from the government, Serbia's two largest labor unions the Confederation of Autonomous Trade Unions of Serbia (CATUS) and Nezavisnost, and the Serbian Association of Employers (UPS) negotiated the CBA and its annexes. The lead interlocutor from the government was Labor and Social Affairs Minister Rasim Ljajic (SDP), however, the controversial negotiations eventually included participation from President Boris Tadic (DS), PM Mirko Cvetkovic (DS), DPM Bozidar Djelic (DS), DPM and Economy Minister Mladjan Dinkic (G17 Plus), Finance Minister Dijana Dragutinovic (DS), and NBS Governor Radovan Jelasic (G17 Plus). UPS is Serbia's largest employers' union of private companies. UPS claims to represent 146,000 of the 300,000 private companies in Serbia, of which, 95% are small and medium sized businesses. In a January 9 public meeting, smaller unions, foreign investors, and Serbian business leaders including tycoon Miroslav Miskovic of Delta Holding weighed in on the debate. [Note: Although Serbia's largest exporter U.S. Steel attended the January 9 meeting, the company's President Richard Veitch told the Ambassador that it did not participate in the CBA negotiations. End Note]

3. (U) Serbia's two largest labor unions were key players in the negotiations. The unions have distinctly different histories and interests and while their influence has waned, the unions remain capable of organizing strikes and street demonstrations. CATUS is Serbia's largest labor union, representing an estimated 450,000 to 600,000 workers primarily from state-owned companies. (There are approximately 2.8 million actively employed persons in Serbia's workforce.) CATUS is an old vestige of Serbia's socialist era made

up of state-affiliated trade unions. During the nineties, CATUS and its leaders supported the Slobodan Milosevic regime and were rewarded with privileges for their loyalty. CATUS has been vocal in its opposition to privatization. Nezavisnost is the opposite of CATUS, representing about 200,000 workers mainly from the private sector. Nezavisnost was a staunch opponent to the Milosevic regime.

Although Nezavisnost is officially non-political, its membership leans toward the more open-market progressive DS camp.

#### Finally an Agreement

14. (U) In April 2008, just before parliamentary elections, the government, Serbia's two largest labor unions, and the largest employers' union (a confederation of mostly small and medium size business owners) signed a general collective bargaining agreement (CBA) that applied to all public and private sector workers. The agreement set minimum standards for workers' rights including provisions for work hours, vacation and leave, workplace safety, salary and allowances, and voluntary and involuntary dismissal. During the negotiations, the parties also agreed to sign CBA annexes that would obligate all employers in Serbia (including the government) to give every employee meal and vacation allowances. As with the pension hike promised to win votes for and form the "For a European Serbia" coalition government, President Tadic made a political promise to workers and the Serbian Socialist Party (SPS) to sign the CBA annexes (reftel). In an act of support for Tadic's coalition, the employers' union also agreed to sign.

15. (U) All three sides signed the annexes in November 2008; however, in December the government and employers' union withdrew their signatures from the entire CBA, citing financial hardship amid the current economic crisis. The withdrawal ignited intensive negotiations and threats of massive worker protests. Calm was restored on January 30 when the parties agreed not to cancel the original CBA or its annexes, but to postpone implementation of the annexes for the first half of 2009 and reexamine the issue later. In the meantime, more traditional industry specific CBAs would be negotiated.

#### Now We Sign It, Now We Don't

16. (SBU) Onlookers were perplexed by the government's and UPS's decision to back out of the entire CBA only weeks after signing the CBA annexes. CATUS President Ljubisav Orbovic told us on February 5 that he believed the government, at the time, did not think the crisis would hit Serbia hard and would, in fact, benefit Serbia. This tracked with the overly optimistic message the government, specifically Minister Dinkic, had been sending. Orbovic said CATUS was willing to freeze implementation of the annexes last year, but the government did not offer that option earlier. Although Nezavisnost also pushed for the CBA annexes, in a meeting with us on February 6, Nezavisnost Labor Union President Branislav Canak admitted he was surprised the government and UPS signed them because he doubted they could afford the estimated \$1.7 to \$2.6 billion annual cost. Neither labor union, however, would accept the government's proposal to negotiate a new CBA and demanded temporary postponement of implementation of the annexes.

17. (SBU) The government and UPS both claimed they and the labor unions agreed to sign the CBA annexes with the intention of never implementing them. On February 27, the Economic Advisor to the Prime Minister Jurij Bajec and Ministry of Labor and Social Issues State Secretary Snezana Lakicevic-Stojicic told us that as early as September 2008 all parties were aware that the CBA annexes were not financially feasible for private employers or the government given the deepening crisis. In fact, a clause was built into the annexes that, according to Bajec, gave the government and UPS an "exit strategy" from implementing them. Bajec and UPS Secretary General Bogdan Savic accused the labor union leaders of reneging on the "gentlemen's agreement" and pushing to implement the annexes to shore up their waning popularity within the unions.

#### Accusations of Blackmail

18. (SBU) In meetings with us, both International Labor Organization

Representative to Serbia Jovan Protic and Canak alleged that the government blackmailed Nezavisnost and CATUS during the CBA annex negotiations. According to Protic and Canak, the government threatened to have Nezavisnost's eligibility to be a part of the CBA negotiations reviewed. Skeptics believe that Nezavisnost's membership, estimated at 200,000, does not meet the legal threshold to qualify it for participation in the Social Economic Council. To qualify, a labor union's membership must be at least 10% (about 280,000 workers) of Serbia's active work force. Canak also alleged that CATUS had an unpaid debt to the Government incurred during the Milosevic era.

¶9. (SBU) Bajec maintained, however, that the government persuaded labor unions that the country's focus should be on job retention during the current crisis and not on increasing allowances that neither the government nor employers could afford. He told us frankly that the annexes would not be implemented in 2009.

#### Harsh Criticism and Low Confidence in the Government -----

¶10. (SBU) Orbovic said CATUS once had a good working relationship with the government, but now CATUS questioned cooperation within the Social Economic Council. He added that the government's contradictory actions during the CBA negotiations cast doubt on the administration's ability to govern the country during the crisis. Canak echoed the sentiment and added that the government's stimulus package had no real framework. Canak called the government "more exclusive, closed, and pro-monopoly than any socialist government in the past," and doubted the government's ability to integrate with the EU.

#### Realistic Unions during the Crisis -----

¶11. (SBU) Both labor union leaders appear to understand the severity of the current crisis and admitted that protests would be counterproductive for the country during the crisis. However, Canak warned that massive layoffs in state-owned companies could lead to social unrest. When asked how flexible CATUS would be in finding solutions to maintain jobs amid the crisis, Orbovic said CATUS was "ready to talk about and share the burden of economic crisis," but added that flexible labor solutions should be "time limited." On March 6, U.S. Steel announced it would institute a four-day work week with employees receiving 60% of their daily pay for the fifth, non-work day. The same day the government issued a statement that it was preparing a package that would introduce the option for all employers to switch to a four-day work week and would increase paid vacation from 45 to 90 days funded with government subsidies.

#### More Bad News -----

¶12. (SBU) Protic reminded us in a meeting on February 4 that in the near future, the economic crisis would not be the only reason for job losses in Serbia. The two year ban on laying-off redundant workers from socially- and state-owned companies privatized through auctions and the five year ban for those privatized through tenders were beginning to expire.

#### COMMENT -----

¶13. (SBU) Realistically the CBA annexes will not go into effect in 2009 or even 2010 given the negative economic prognosis for the country. The CBA annexes may simply be forgotten and replaced with the proposed industry specific agreements which would be more in line with most European countries' practice. In addition, the IMF will likely play a role in any discussion about payment of worker allowances as it would mean a significant increase in government spending. Labor union leaders seem to be fairly confident that labor unrest will not erupt into significant protest in the near future. However, as the financial crisis deepens and companies have to make tough expense cutting decisions, workers may take to the streets. If the government can convince workers and unions to accept creative job retention solutions such as reduced workweeks, then the country could avert unrest. Much depends on the Serbian leadership's ability and will to educate the average worker that

there is no easy and quick solution the government can implement to get Serbia out of the current crisis and that everyone will have to sacrifice. End Comment.

MUNTER